

# Fiscal Note

*Fiscal Services Division*



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**HF 624** – Custom Farming Contract Tax Credit (LSB2359HZ)  
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Fiscal Note Version – New

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## **Description**

**House File 624** relates to the existing Custom Farming Contract Tax Credit portion of the Beginning Farmer Tax Credit Program. This Bill extends the maximum length of a qualified custom farming contract from the existing 12 months, to 24 months. The change is effective on enactment and applies retroactively to January 1, 2015.

## **Background**

The Custom Farming Contract Tax Credit is equal to 7.0% of the amount paid by the taxpayer to a qualified beginning farmer under a custom farming contract. For the first year of a contract, the credit is equal to 8.0% if the beginning farmer is a veteran. The credit is limited to no more than \$4.0 million across all qualified contracts in one year. A single taxpayer may not receive tax credits under the Beginning Farmer Tax Credit Program in excess of \$50,000.

The Beginning Farmer Tax Credit Program is administered by the Iowa Finance Authority and the Department of Revenue. The tax credit is not refundable or transferable but any unused credit may be carried forward for up to 10 tax years.

## **Assumptions**

- Current usage of the Custom Farming Contract Tax Credit does not approach the existing \$4.0 million cap and it is assumed that while extending the allowed contract duration will increase utilization of the Credit, usage will still be less than the current cap.
- Tax credit usage under current law is expected to be similar to the average for 2013 through 2015 (\$30,000 per year).
- Tax credit usage with the changes proposed in this Bill is expected to double, to \$60,000 each year, beginning in tax year 2015.
- Tax credit redemption will follow the following pattern: first year – 45.0%; second year – 20.0%; third year – 10.0%; fourth year – 8.0%; fifth year – 6.0%; sixth year – 3.0%. A total of 8.0% of the credits will expire unredeemed.
- The Custom Farming Contract Tax Credit will sunset at the end of tax year 2017.

## **Fiscal Impact**

Extension of the allowable contract period for the Custom Farming Contract Tax Credit to 24 months is projected to decrease State General Fund revenue by \$83,000 over a period of eight fiscal years, beginning in FY 2016. In no year is the impact expected to exceed \$25,000.

## **Source**

Department of Revenue

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/s/ Holly M. Lyons

April 7, 2015